Panel on

Business Dynamism, Productivity Growth and Inclusiveness in the Aftermath of COVID-19

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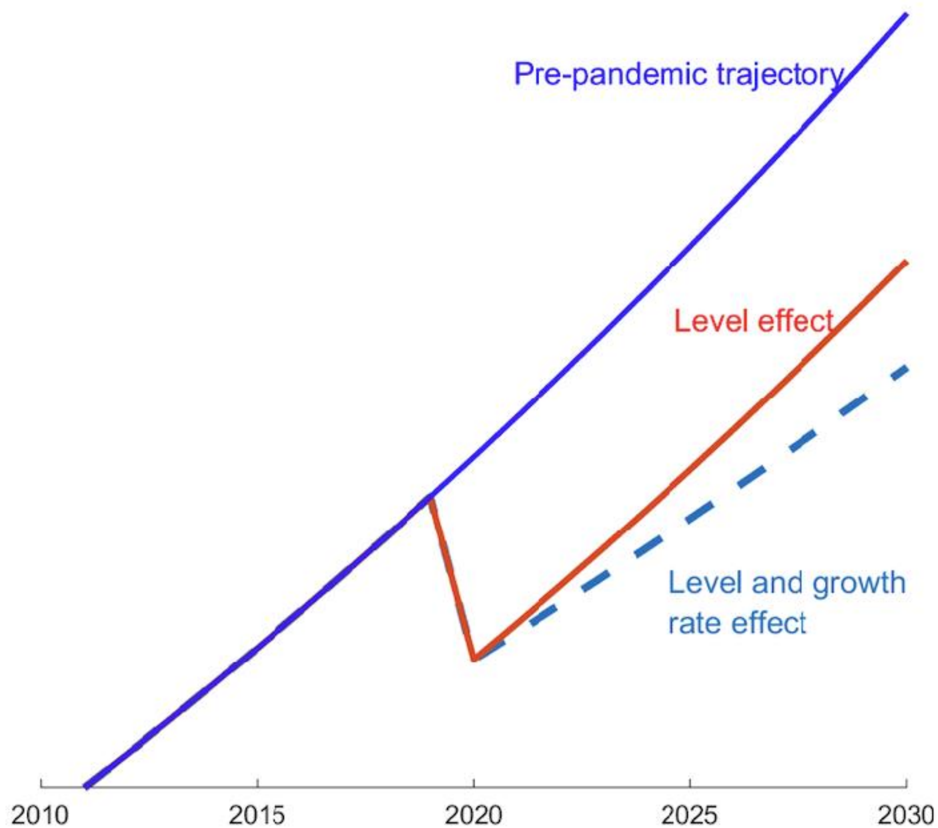
What does the pandemic mean for potential output?

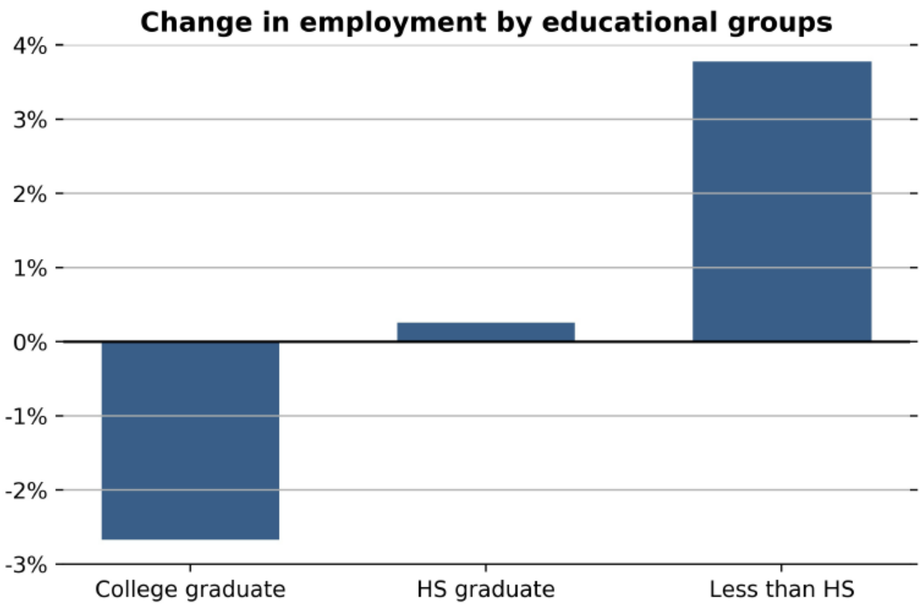


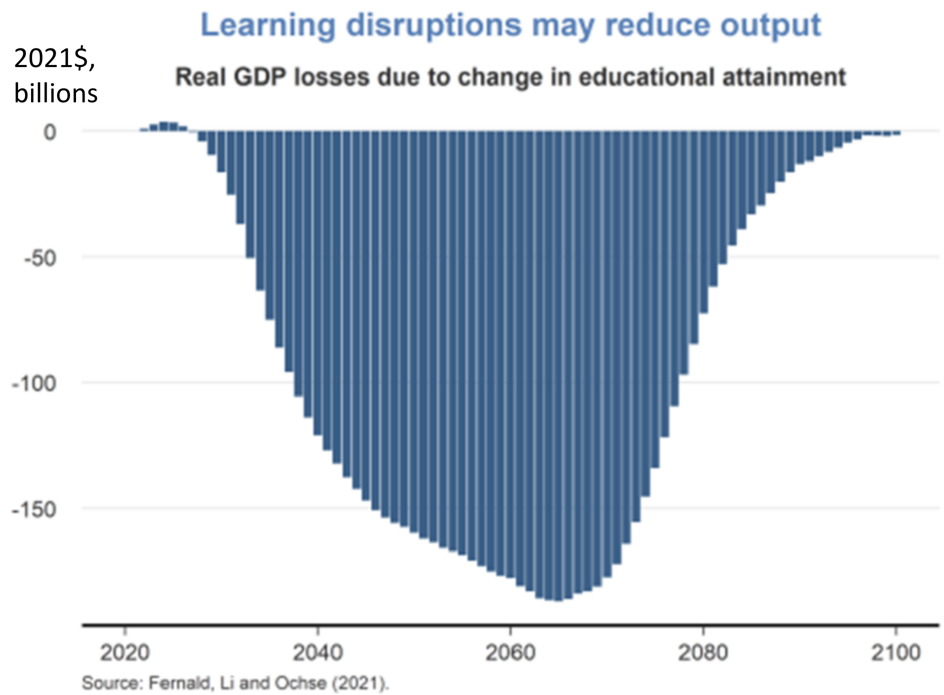
Fernald-Li (2020)

- “Known knowns”: ~1 near-term level effect
- Also a range of known unknowns.

School closures lead to long-run economic harm

Use micro estimates from Fuchs-Schudeln et al (2020) to gauge the % change in employment by education group. Use Bosler, Daly, Fernald and Hobijn (2017) to convert to % decline in effective labor input.





Note: Eventual educational attainment of current U.S. 14-year olds, according to Fuchs-Schüdeln et al (2020) lifecycle model.

Invest in ideas and infrastructure

- Even a major infrastructure push is unlikely on its own to bring back the glory days of productivity growth
  - Suppose the U.S. spends $1 trillion over 10 years, with a (massive) 10% real rate of return
  - After 10 years, GDP is $100 billion higher…or less than 0.4% higher
  - That's a growth boost of 4 basis points per year, even with a high-end estimate of the rate of return

Takeaway

- Invest in schooling, ideas, and infrastructure
- But good policies, on their own, are unlikely to substantially shift the underlying slow-growth momentum